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ZNR UUUUU ZZH
R 201358Z AUG 07
FM AMEMBASSY CAIRO
TO RUEHC/SECSTATE WASHDC 6603
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUEHRC/USDA FAS WASHDC
RUCPDOG/USDOC WASHDC 0319

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E.O. 12958: N/A
TAGS: [ECON](#) [EAGR](#) [PGOV](#) [EG](#)
SUBJECT: WHEAT SHORTAGE?

REF: A. CAIRO 2200
[1](#)B. CAIRO 2111

Summary

[1](#)1. (U) Shortfalls in wheat and flour have lead to rising prices and fears of a bread shortage in the coming weeks leading up to Ramadan. Media reports claim wheat reserves will not last through August, but GOE officials counter that supplies are sufficient to last until January 2008. Minister of Social Solidarity Moselhy claims the real problem is a black market for cheap GOE-subsidized flour. Local grain traders believe, however, that shortages of imported wheat have allowed local farmers to command a higher price for their wheat than the GOE is willing to pay. Many GOE officials maintain that the real problem is the subsidy system, which needs reform in order to ensure that the subsidy reaches those most in need.

Fears of a Shortage

[1](#)2. (U) Diminishing stocks of wheat and flour have lead to rising prices and fears of a severe bread shortage just before Ramadan. Press reports claim that sources in the flour milling sector believe Egypt's current wheat reserves will not last through the end of August. Ali Moselhy, Minister of Social Solidarity, denied these claims, saying that he estimated reserves at 1.9 million tons of imported wheat (sufficient for four months), and 1.9 million tons of local wheat, sufficient for consumption through January 2008. Moselhy said the real problem is bakeries re-selling subsidized flour provided by the government on the black market. The GOE charges bakeries LE 16 (\$3) per sack of flour. The same sack fetches approximately LE 150 (\$26) on the black market. Without the capacity to monitor all bakeries receiving subsidized flour, the GOE is helpless to control the black market. Moreover, press reports indicate that black market flour dealers sometimes bribe GOE bakery inspectors, who work for low public sector wages.

[1](#)3. (U) Hany Khafry, a grain trader with Misr for Grain, told econoff that the problem originates earlier in the bread production chain. A shortage of imported wheat, exacerbated by rejection of the large shipment of allegedly bug-infested U.S. wheat (Ref A), has driven up prices of domestic wheat. In the months following rejection of the U.S. wheat shipment, international wheat prices have skyrocketed, jumping from \$200/metric ton in June 2007 to \$340/metric ton currently. Local farmers, aware of higher

international prices, refuse to sell their wheat to the GOE at the low prices the government demands. Moreover, press reports indicate that this year's domestic wheat harvest was less than the previous year's. Without an increase in the budget allocation for higher cost wheat, the government has had to dip into strategic reserves, lowering overall stocks. Decreased stocks have not reached critically low levels, however, according to Khafry.

14. (U) Although stocks have not reached critically low levels, on August 14, Egypt's General Authority for Supply of Commodities (GASC) bought 415,000 tons of U.S. wheat, marking one of the highest single day sales of U.S. wheat to any country in several years. Delivery is set for September/October 2007. Since 1 July, GASC has bought 1.76 million tons of wheat (about two-thirds from the U.S., the remainder from Russia), three times as much as purchased in the same time frame last year.

It's the System

15. (U) Some local analysts believe the problem is not low wheat stocks, but the subsidization system itself. In the current system, wheat purchased by the GOE (the Ministry of Trade and Industry purchases imported wheat and the Ministry of Agriculture purchases domestic wheat) is sold to public mills, which produce flour sold at subsidized prices to bakeries, primarily in low income neighborhoods. The bakeries then produce low-priced and generally low-quality bread, which in theory is purchased by those who can not afford higher-priced, higher-quality bread. Any customer can buy the subsidized bread, however, and frequently demand for subsidized bread outstrips supply at the bakeries, leaving poor bakery customers with no option but to buy higher-priced bread, or some low-cost substitute.

Potential Reform

16. (SBU) Minister Moselhy is one of the Cabinet's most vocal advocates of reforming the bread subsidy system (Ref B). Moselhy told Acting USAID Acting Director John Groarke that he envisions removing the GOE from the bread production chain and providing the subsidy in the form of a cash payment to needy families, which could be used to buy bread at market prices. Moselhy told Groarke that his ministry was working on a system to categorize families according to need. By 2008-2009, the GOE will begin the transition to a cash payment system directly to families meeting certain need criteria. Moselhy believed opposition to the change would come not from the poor, but from the public mill managers and suppliers/distributors benefiting from the current system.

Comment

17. (SBU) Whether Egypt faces a true shortage of wheat and flour or not, the existence of a black market points up market-distorting forces at play. As is the case with many of its reforms, the GOE has not adequately articulated its plan to change the subsidy system, or made any effort to co-opt groups with entrenched interests in the current system. The lack of a clearly articulated plan allows forces opposed to the reform to play on public fears and attempt to sabotage the reform effort.

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